

Audit

Report



ALLEGATIONS TO THE DOD HOTLINE ON
CONTRACT MAINTENANCE FOR THE C-20 AIRCRAFT

Report Number 99-077

February 4, 1999

This special version of the report has been revised to omit Contractor Proprietary data.

Office of the Inspector General
Department of Defense

Additional Copies

To obtain additional copies of this audit report, contact the Secondary Reports Distribution Unit of the Audit Followup and Technical Support Directorate at (703) 604-8937 (DSN 664-8937) or FAX (703) 604-8932 or visit the Inspector General, DoD, Home Page at www.dodig.osd.mil.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Planning and Coordination Branch of the Audit Followup and Technical Support Directorate at (703) 604-8908 (DSN 664-8908) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, Virginia 22202-2884

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@dodig.osd.mil, or by writing to the Defense Hotline, The Pentagon, Washington, D.C. 20301-1900. The identity of each writer and caller is fully protected

Acronyms

AFB	Air Force Base
COMBS	Contractor Operated and Maintained Base Supply
DCMC	Defense Contract Management Command
O&A	Over and Above
TRCO	Technical Representative to the Contracting Officer



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

February 4, 1999

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on Allegations to the DoD Hotline on Contract Maintenance
for the C-20 Aircraft (Report No. 99-077)

We are providing this report for review and comment. This audit was performed in response to a referral to the DoD Hotline on potential violations of a contract involving maintenance and repair of the C-20 aircraft. Management comments were considered in preparing this report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Air Force comments were partially responsive. As a result of management comments, we revised Recommendations 1.f. and 1.i. and we deleted Recommendation 2. We request that the Air Force provide additional comments on Recommendations 1.e., h., and i. by March 8, 1999. We also request that the Air Force comment on the potential monetary benefits.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Joseph P. Doyle at (703) 604-9348 (DSN 664-9348) or Ms. Deborah L. Culp at (703) 604-9335 (DSN 664-9335). See Appendix E for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

This special version of the report has been revised to omit contractor proprietary data.

Office of the Inspector General, DoD

Report No. 99-077
(Project No. 8CK-8005)

February 4, 1999

Allegations to the DoD Hotline on Contract Maintenance for the C-20 Aircraft

Executive Summary

Introduction. The audit was performed in response to allegations to the DoD Hotline on potential violations of a contract for maintenance and repair of the C-20 aircraft. The contract contains fixed-price and cost-reimbursable line items for a base year and 6 option years estimated at about \$ *. As of June 1998, after less than 3 years of the contract, the Government had obligated about \$105 million. If the costs continue at the same rate, significant contract cost overruns will occur before the contract ends. The contract provides full and partial contractor logistics support for the C-20 aircraft fleet.

Audit Objectives. The audit objectives were to evaluate the C-20 contractor logistics support contract and to evaluate Government contract administration for the contract. We also reviewed the specific allegations to the DoD Hotline. We did not review the management control program because the scope of the audit was limited to the allegations and one contract. See Appendix A for discussion of the audit process.

Audit Results. The allegation to the DoD Hotline that reductions in subcontractor personnel compromised the integrity of the C-20 aircraft fleet was not substantiated. The allegation regarding the operation of the contractor operated and maintained base supply was partially substantiated. The contractor did not staff the contractor operated and maintained base supply the hours required by the contract because the contract requirements for the hours of operation were ambiguous. See Appendix B for a discussion of the allegations to the DoD Hotline.

Although the contractor regularly achieved the specified mission capable and supply rates, DoD program and contracting personnel did not effectively manage the following aspects of the C-20 contractor logistics support contract: cost of purchased or repaired parts, material handling charges, cost reimbursable expenses for subcontractor effort, contractor operated and maintained base supply, maintenance guidance, depot operations, and contractor oversight.

As a result, DoD may have paid at least \$12.8 million more than necessary for parts and services, DoD may have paid for services that were not received, and DoD used resources resolving issues arising from poor contract language. See Part I for a discussion of the audit results. Sabreliner took action to purchase the aircraft tires from a source other than * in response to our audit. This action will result in potential monetary benefits of about \$1.26 million over the remaining life of the contract and about \$887,000 of potential monetary benefits from recouping additional costs for past purchases of aircraft tires.

*Proprietary data omitted.

Additional potential monetary benefits can be realized by requiring the contractor to obtain the best value for the purchase and repair of parts for the C-20 program. See Appendix D for a summary of the potential monetary benefits.

Summary of Recommendations. We recommend that the Air Force require the contractor to obtain best value for new and repairable parts, revise the contract to clarify vague and ambiguous language, develop and implement guidance on over and above expenses (subcontractor effort), and develop a standard surveillance plan. In addition, we recommend providing training to DoD representatives on the C-20 contract and maintenance specific to the C-20 aircraft. We also recommend that the C-20 program office schedule periodic site visits, and request that the Defense Contract Management Command follow up on the contractor's purchasing system review.

Management Comments. The Air Force concurred with requiring the contractor to obtain best value for new and repair parts, to develop and implement guidance for the allowability and authorizations of over and above costs (subcontractor effort), to develop a standard surveillance plan, and to require the C-20 program office to schedule periodic site visits. The Air Force concurred with reviewing the over and above (subcontractor effort) forms at the main operating bases. Also, the Air Force agreed that the Defense Contract Management Command should follow-up on the contractor's purchasing system review. The Air Force nonconcurred that there was a need to clarify contract F34601-95-C-0538 to eliminate vague and ambiguous contract language and to submit depot authorization forms to the contractor for scheduled maintenance 90 days prior to aircraft arrival at the depot. The Defense Logistics Agency agreed with the need for a contractor purchasing system review and one was performed, and training was scheduled for the needed personnel. See Part I for a summary of management comments on the recommendations and Part III for the complete text of management comments

Audit Response. As a result of management comments, we revised recommendations to modify the contract to identify whether Federal Aviation Administration or the Services' maintenance guidance took precedence and that the technical representative to the contracting office review over and above (subcontractor effort) forms to verify work performance at the main operating bases. We disagree with the Air Force position that the contract does not require clarifying language. The audit results demonstrate that the contractor and the technical representatives to the contracting officer misinterpreted contract requirements. The misinterpretations related to cost basis for the threshold of repair; the treatment of cost reimbursable over and above costs (subcontractor effort); the requirement for the contractor to provide maintenance support for Navy Kaneohe Bay aircraft at Hickam Air Force Base without additional costs; the contractor operated maintenance base supply operational hours; and the depot maintenance schedule, and the need for the Air Force to submit depot maintenance authorization forms 90 days prior to aircraft arrival at the depot. We deleted the recommendation to move the C-20 operations from Marine Corps Base Hawaii - Kaneohe Bay to Hickam Air Force Base in response to comments from the Navy. We request the Air Force provide comments on the unresolved recommendations and estimated potential monetary benefits by March 8, 1999.

Table of Contents

Executive Summary	i
--------------------------	---

Part I - Audit Results

Audit Background	2
Audit Objectives	3
Oversight of the C-20 Contractor Logistics Support Contract	4

Part II - Additional Information

Appendix A. Audit Process	22
Scope and Methodology	22
Summary of Prior Coverage	23
Appendix B. Summary of Allegations and Audit Results	24
Appendix C. Costs for Aircraft Tires	25
Appendix D. Potential Monetary Benefits From Future Purchases of Aircraft Tires	26
Appendix E. Report Distribution	27

Part III - Management Comments

Department of the Air Force Comments	30
Department of the Navy Comments	39
Defense Logistics Agency Comments	41

Part I - Audit Results

Audit Background

This audit was performed in response to allegations to the DoD Hotline on potential violations of the terms of a contract involving maintenance and repair of the C-20 aircraft. See Appendix B for a complete discussion of the allegations.

C-20 Program. The C-20 fleet is comprised of variations of the Gulfstream II, III, and IV commercial business jets. The primary mission of the C-20 aircraft is transportation of members of the executive staff, and senior Government and military officials. The fleet consists of 24 C-20 aircraft operated by all Military Services. Table 1 shows information on the fleet of C-20 aircraft.

Table 1. C-20 Aircraft

<u>Main Operating Base</u>	<u>Service</u>	<u>Number of aircraft</u>	<u>Maintained by</u>
Hickam AFB ¹	Army	1	Contractor
Kaneohe Bay	Navy	2	Contractor
Ramstein Air Base	Air Force	3	Contractor
Andrews AFB	Army	3 ²	Contractor
	Navy	4	Navy
	Air Force	10	Air Force
	Marines	1 ³	Contractor

¹Air Force Base

²Aircraft tail number 266 was removed from contract.

³Disposition for repair or scrapping the aircraft, because of severe storm damage, is still pending.

Contract. In July 1995, Oklahoma City-Air Logistics Center at Tinker Air Force Base (AFB), Oklahoma, awarded Sabreliner Corporation (Sabreliner) a contract, F34601-95-C-0538, for C-20 contractor logistics support. Defense Contract Management Command (DCMC), St. Louis, administers the contract and oversees depot operations. Technical Representatives to the Contracting Officer (TRCOs) perform oversight of contractor performance at the main operating bases.

The contract contains fixed-price and cost-reimbursable line items for a base year and 6 option years estimated at about \$ *million. As of June 17, 1998, after less than 3 years of the contract, DoD had obligated about \$105 million or about

*Proprietary data omitted.

* percent of the total estimated value of the contract. If costs continue at the same rate, significant contract cost overruns will occur before the contract ends. The firm fixed-price portion of the contract is for contractor maintenance at the main operating bases and at the depot, operation of Contractor Operated and Maintained Base Supply (COMBS), and contractor field services at Andrews AFB. The cost-reimbursable portion is for Subcontractor Effort Over and Above (O&A) the basic maintenance work performed and for the purchase or repair of parts. The contract provides for depot, field and engine maintenance and modifications; flightline maintenance and inspections; and component overhauls. Subcontractors operate the COMBS, maintain 10 aircraft, and perform depot maintenance and engine overhauls. The contract does not require a fixed number of staff hours or personnel but relies on mission capable rates for aircraft and supply.

Contractor Performance Indicators. The contract uses fully mission capable rates and supply performance rates to measure contractor performance. The contract administrator can assess liquidated damages if the fully mission capable rate for the aircraft falls below 80 or 85 percent depending on the aircraft model. The contract administrator may also assess liquidated damages if the contractor's non-mission capable supply rates are greater than 3 or 6 percent, depending on the aircraft model. The contractor reports the mission capable rates to the Oklahoma City Air Logistics Center C-20 program office, with the TRCOs verifying the contractor's reported rates on monthly status reports

Audit Objectives

The audit objectives were to evaluate the C-20 contractor logistics support contract and to evaluate Government contract administration relating to the C-20 contractor logistics support contract. We also reviewed the specific allegations to the DoD Hotline. We did not review the management control program because the scope of the audit was limited to the allegations and one contract. See Appendix A for discussion of the audit process and summary of prior coverage. See Appendix B for discussion of the allegations to the DoD Hotline.

*Proprietary data omitted.

Oversight of the C-20 Contractor Logistics Support Contract

Program and contracting personnel did not effectively manage the C-20 contractor logistics support contract. The contract was ineffectively managed because:

- DoD personnel did not adequately monitor the contractor's costs for new and repair parts,
- DoD personnel awarded a contract that contained vague and ambiguous language related to the material handling charges, cost-reimbursable expenses for subcontractor effort, COMBS operation, and maintenance guidance, and
- DoD personnel involved in the administration of the contract did not effectively communicate.

As a result, DoD may have paid at least \$12.8 million more than necessary for parts and services, DoD may have paid for services that were not received, and DoD expended resources resolving issues arising from poor contract language. The audit identified at least \$2.15 million in potential monetary benefits.

Cost Monitoring

DoD personnel did not effectively monitor the reasonableness of Sabreliner's reimbursable costs for new and repaired parts on the contract. DoD was primarily concerned with the logistic support for the C-20 aircraft, and on the contractor achieving specified mission capable and supply rates. Although the contractor regularly achieved the specified mission capable and supply rates, the contractor incurred higher than anticipated costs. DoD personnel did not place sufficient emphasis on monitoring the contractor's costs. As a result, DoD may not have received the best value from the Sabreliner contract for about \$40 million for parts purchased or repaired for FYs 1996 and 1997.

Sabreliner's Purchasing System. Personnel at DCMC, St. Louis, did not follow up on weaknesses in obtaining competition identified in a purchasing system review of Sabreliner. The administrative contracting officer is responsible for followup, however, DCMC, St. Louis did not have an administrative contracting officer working this contract and followup on the reported weaknesses in Sabreliner's procurement system did not occur. The DCMC, "Contractor Purchasing System Review," October 1, 1997, stated that "... of those purchase

orders reviewed, the competitive numbers indicate that the company should be attempting more competition.” The Contractor Purchasing System Review Team also recommended that Sabreliner use effective price analysis. The team stated that “Sabreliner is utilizing single catalog pages from some suppliers; this alone does not meet the requirement for price analysis.” The team recommended, “Sabreliner obtain increased competition through the establishment of alternate sources of supply.” Although DCMC considered the recommendations in the report to be minor, increased competition could save money. The \$1.26 million of potential monetary benefits resulting from Sabreliner purchasing aircraft tires from the tire manufacturer is an example of savings from increased competition

Parts Purchased. DoD personnel did not effectively monitor the reasonableness of Sabreliner’s costs for new parts purchased on the contract. Sabreliner relied mainly upon * as the most convenient means available for the purchase of parts. We reviewed two transactions in which Sabreliner purchased Goodyear aircraft tires from * rather than from Goodyear. For one transaction, *’s price for the tire was * the Goodyear price. We calculated DoD unreasonably and needlessly incurred additional costs of about \$887,000 for about \$1.9 million of aircraft tires purchased from October 1995 through April 7, 1998. See Appendix C for our calculation of the unneeded costs

As a result of our audit, Sabreliner is now purchasing tires directly from Goodyear at a substantial reduction in price that, based on past history of purchases, has potential monetary benefits of about \$1.26 million to the C-20 program over the remainder of the contract. See Appendix D for the calculation of potential monetary benefits. Additionally, potential monetary benefits of about \$887,000 can be realized from recouping unreasonable costs for past purchases of aircraft tires. The contracting officer should identify the correct amount and recoup the unreasonable and needlessly incurred additional costs for the tires.

Parts Repaired. DoD personnel did not monitor Sabreliner’s procurement of repair parts to verify that the Government received the best value when having parts repaired on the C-20 contract. In addition, the contracting officer issued a contract that contained unclear language regarding a cost basis for threshold limitation for repairs.

* **Agreement.** Sabreliner did not verify that the rate it pays * is as reasonable as procuring the repair directly from the source that performed the repair. After contract award, Sabreliner entered into an agreement with * for the repair of parts, without verifying that repairing the parts through the agreement was in the best economic interest to the Government. The terms specify that * would charge Sabreliner * percent of the * catalog price of a new item when repairing a part. Nearly all billings for repairs went through * even though for calendar year 1997 * only performed about 38 percent of the actual repairs or about 1,170 invoices out of about 3,100 invoices. Other vendors, including the original equipment manufacturer of the item, performed the repairs about

*Proprietary data omitted.

62 percent of the time, under reimbursement through *. We could not identify what the actual cost for repairables to DoD would have been if Sabreliner had dealt directly with the original equipment manufacturer rather than *. The contracting officer should require Sabreliner to document that the decision to repair parts through the * agreement is in the best interest of DoD.

Cost Basis for Threshold for Repairs. The contracting officer issued a contract that is vague regarding the cost basis to use for calculating the threshold limitation for the repair of assets. The contract states that the contractor will not repair an asset when the cost of the repair will exceed 75 percent of the replacement cost. The contract does not specify which cost, the original aircraft manufacturer, the original equipment manufacturer, or an established Government discount cost, is the basis for determining the 75 percent threshold. For two transactions reviewed, we identified where Sabreliner was charged the agreement rate of \$ * for each repair through *, but DoD could have purchased a new part for only \$ * from the source that actually performed the repair. Table 2 shows that depending upon the cost basis used, the repair exceeded 75 percent of the replacement cost. The contract should identify the cost basis for the threshold for repairs.

Table 2. Repair Threshold Differences

<u>Source</u>	<u>Cost to Purchase¹</u>	<u>Threshold²</u>	<u>Cost Paid to Repair¹</u>	<u>Threshold Exceeded</u>
Aircraft manufacturer	\$ *	\$ *	\$ *	No
Equipment manufacturer	*	*	*	No
Government discount ³	*	*	*	Yes

¹Loadings not added to costs since no impact.

²75 percent of replacement cost.

³Government cost is based on a prearranged discount from the equipment manufacturer catalog price (Allied-Signal in this example).

Cost Reasonableness. DoD did not place sufficient emphasis on cost reasonableness or follow up on weaknesses in competition from Sabreliner's purchasing system review. The contracting officer determines whether costs for direct materials are reasonable as required by contract clause B-01(C), "Cost Reimbursement Items." Federal Acquisition Regulation 31.2, "Contracts with Commercial Organizations," identifies reasonableness as one of the factors to be considered in determining whether a cost is allowable. Federal Acquisition Regulation 31.201-3(a), "Determining Reasonableness," states "A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business." In addition,

*Proprietary data omitted.

throughout the Sabreliner purchasing system review report, the Contracting Purchasing Review Team recommended that Sabreliner obtain increased competition. Although we reviewed only two transactions for new and repair parts, we believe that the contractor's procurements were not reasonable for the four transactions reviewed. Because of the parts reviewed and the weaknesses in competition noted in the purchasing system review, we believe that the contracting officer should require Sabreliner to review and justify the prices for other nonproprietary new and repair parts obtained directly from * instead of the manufacturer or other competitive sources. Those amounts in excess of those that were reasonable should be disallowed and recovered by the contracting officer.

Contract Language

DoD did not properly manage the C-20 contractor logistics support contract because the contracting office awarded a contract that contained vague language. The contract language was vague on the rate used for material handling charges, on cost-reimbursable expenses for subcontractor effort related to O&A costs, and on the operation and requirements of the COMBS. Finally, the contract had conflicting language for maintenance guidance.

Material Handling Charges. DoD agreed to pay Sabreliner an additional \$11.9 million over the life of the contract because the contract was not clear regarding the loading rates that the contractor could apply for cost reimbursable items. The contracting office believed that the contract specified a maximum rate of about * percent while Sabreliner believed that the contract allowed a rate of about * percent applied to cost reimbursable items. At the request of DCMC, the Defense Contract Audit Agency determined in Audit Report No. 3201-98C17900102, January 14, 1998, that Sabreliner charged DoD about \$7 million more than DoD expected in material handling charges during FYs 1996 and 1997. The contracting office learned of the additional amount when the Navy C-20 program office found discrepancies in their billed cost reimbursements for parts. The additional payment was a costly result of ambiguities in the contract. Future contracts should specifically state the total rate applied by the contractor for material handling charges.

Cost-Reimbursable Expenses for Subcontractor Effort. DoD did not adequately manage the cost-reimbursable O&A (subcontractor effort) charges on the contract. DoD did not clearly specify what costs were allowable for O&A maintenance and repairs at and away from the main operating bases and for airport parts pick-up runs. In addition, DoD did not adequately address the operational and cost impact of Navy aircraft operating from alternate bases in Oahu, Hawaii.

*Proprietary data omitted.

O&A Costs for Maintenance. DoD and subcontractor personnel did not have a clear understanding of what constituted legitimate costs for O&A charges on the contract. From contract inception until about September 1997, the subcontractor did not consistently charge for on-site nonroutine maintenance and repairs from one site to another. Also, DoD representatives were inconsistent in authorizing the O&A charges. In addition, the subcontractor billed both regular and overtime hours for off-site nonroutine maintenance and repairs when the contractor had not incurred additional costs. During the period October 1995 through February 1998, the subcontractor prepared O&A charges valued at about \$ * for O&A maintenance performed on-site and off-site for the four main operating bases. We did not determine the amounts the contractor has billed to DoD. Since September 1997, the subcontractor submitted O&A claims only when overtime or premium pay is involved and for the actual expenses incurred. The subcontractor unilaterally made this change in policy with no contract modification or direction from DoD. However, the contractor continues to maintain a record of the O&A work performed but not submitted. The Government is potentially liable if the contractor submits the costs at a later date.

O&A Costs On-Site. The subcontractor was not consistent in billing DoD for similar nonroutine work. The subcontractor submitted billings for O&A costs that varied among the sites. The subcontractor should have a similar number of O&As for nonroutine work among the sites. From contract inception to September 1997, the subcontractor submitted a range from 0 to 26 O&As for similar nonroutine work for the four main operating bases. We did not determine whether DoD paid the contractor for the related O&As.

O&A Costs Off-Site. The subcontractor inconsistently charged hours for off-site repairs and maintenance. The subcontractor sometimes charged hours that included all hours from the time the mechanic left the main operating base until he returned, regardless of whether the contractor paid the employee or whether the employee even worked the hours. In other instances, the subcontractor charged only the additional hours worked by the mechanic. In addition, mechanics did not always receive premium pay for the hours worked away from the main operating base. Some of the time away from the main operating base was within the mechanic's normal 40 hour work week, other times the mechanic received time off instead of premium pay. Further, subcontractor personnel stated that, at times, the hours charged as O&A included site management time even though site managers never left the main operating base or received premium pay.

DoD should clarify to the contractor when the contractor can charge O&A hours, what O&A costs are allowable, and specify the required documentation needed to support the claims. The contracting officer should revise the contract to clearly state what is an O&A (subcontractor effort) expense. The contracting officer should also clarify to the TRCOs what expenses are O&A costs and their O&A authorization responsibilities.

*Proprietary data omitted.

Parts Pick-Up. The subcontractor submitted O&A billings for parts pick-up runs that the fixed-price portion of the contract should have covered. The subcontractor charged DoD unsupported and undocumented O&A costs for actions that helped ensure that the contractor does not incur liquidated damages. DoD required the contractor to maintain a specified minimum mission capable supply rate or incurs liquidated damages. However, DoD also allows the contractor to charge O&A costs for trips away from the main operating base to pick-up and expedite parts when an aircraft is not mission capable because parts are needed. Because DoD provides payment via fixed-price line items in the contract for parts handling, and it is the subcontractor's decision to expedite parts to maintain the required non-mission capable supply rate and avoid paying liquidated damages, the cost of expediting the parts should be borne by the contractor.

At Andrews AFB, from contract inception through February 1998, the subcontractor prepared 200 O&As for trips from Andrews AFB to Ronald Reagan Washington National Airport for parts pick-up or delivery. The subcontractor sometimes charged DoD for multiple parts runs on the same day. The cost per trip was about \$ * and included * hours labor and * miles at the Joint Travel Regulation allowable mileage rate. However, the subcontractor could not demonstrate that it had incurred any additional expenses as a result of the trips to the airport. The subcontractor salaried site managers made the airport trips in the corporate vehicle. The subcontractor did not pay the managers mileage, overtime, or premiums for driving the corporate vehicle. The 200 O&As for trips to the airport totaled about \$ *. We did not determine what portion of the \$ * the contractor billed to DoD. The contracting officer should modify the contract so that DoD is not paying additional costs for the contractor to avoid liquidated damages.

Navy Hawaii Operation. DoD did not adequately provide for the unique operating conditions for Navy aircraft based at Marine Corps Base Hawaii - Kaneohe Bay (Kaneohe Bay) in the contract. Because the control tower at Kaneohe Bay had limited weekday hours and was not open weekends, about 70 percent of the Navy C-20 aircraft launches, recoveries, and turn-arounds occurred at Hickam AFB. Hickam AFB is less than 20 miles away from the main operating base at Kaneohe Bay. The subcontractor frequently sent mechanics from Kaneohe Bay to Hickam AFB to service Navy aircraft and charged DoD about \$ * in O&A costs for each turn-around and launch or recovery of Navy aircraft from the alternate local site. Other than minor mileage charges, the subcontractor could not document any additional expense over what would have incurred had the Kaneohe Bay runway been fully operational. DoD is paying twice for launches and recoveries of Navy aircraft in Hawaii if at other than the Kaneohe Bay main operating base. The DoD pays once under the contract monthly Contractor Maintenance Support fixed-price line item and again under the contract cost-reimbursable Subcontractor Effort (O&A) line item. In addition, the subcontractor is only contractually obligated to be present at launches and

*Proprietary data omitted.

recoveries at the main operating base. During the period December 13, 1995, through December 14, 1997, the subcontractor prepared 257 O&A charges valued at about \$ * for maintenance performed at Hickam AFB on Navy aircraft. We did not determine how much the contractor billed to DoD. In January 1998, the subcontractor stated they would stop submitting O&As for work at Hickam AFB on Navy aircraft that did not involve overtime for the contractor. However, the subcontractor continued to maintain a record of the O&A work performed but not submitted. DoD is potentially liable if the contractor submits the costs at a later date. The contracting officer should modify the contract to indicate that the Navy aircraft operate primarily out of Hickam AFB rather than the designated main operating base at Kaneohe Bay. The contract modification should include language to ensure that the aircraft are adequately supported at Hickam AFB without additional costs.

COMBS Operations. The contractor did not staff the COMBS the hours required by the contract because the contract requirements were ambiguous for the COMBS hours of operation. The contract states, "The COMBS at Ramstein AB, Hickam AFB, and Kaneohe Bay shall be operated during a normal work week. A normal work week consists of a two shift, sixteen hour per day, five day week Unless there is an agreement to deviate from such, between the contractor and the on-site Government representative." The contractor and TRCOs interpreted the contract as calling for the COMBS to be available rather than a person physically present for the hours specified.

In May 1998, the contracting officer stated that the contract called for the contractor to have a COMBS dedicated person present at the COMBS site during the hours prescribed in the contract unless an agreement existed between the contractor and the on-site DoD representative. We did not identify any signed agreements between the on-site DoD representative and the contractor on the staffing hours of the COMBS. However, the users did not provide any examples of when the COMBS was not available for needed parts. The contracting officer should clarify contract section 2.1.3. related to the hours the COMBS will be operated. The revision should state whether DoD requires staffing or availability.

Maintenance Guidance. The contract contains conflicting language regarding maintenance guidance. The C-20 is a commercial derivative aircraft and the contract requires that the contractor maintain the aircraft to Federal Aviation Administration requirements. However, the contract also states, "maintenance . . . will be in accordance with applicable technical orders and directives unless otherwise directed" The Army requires adherence to Army Regulations, the Navy requires adherence to Navy Instructions, and the Air Force requires adherence to specific technical orders. The different guidance requires the contractor to perform similar maintenance tasks differently at the main operating bases and lessens the advantage to operating a commercial aircraft. The contracting officer, in conjunction with the C-20 program office, should identify which guidance takes precedence and modify the contract as required.

*Proprietary data omitted.

Improving Communication

Poor communication among program, contracting, operating base, and DCMC personnel contributed to oversight problems of the contract and caused delays in depot operations, inconsistencies in oversight among the main operating bases and allowed the contractor to submit O&A costs without review.

Depot Operation. DoD personnel did not effectively manage contractor depot maintenance scheduling. DoD personnel did not require the contractor to adhere to the contract's depot delivery schedule nor provide the contractor with authorization forms in sufficient time for the contractor to procure parts and materials.

Depot Maintenance Schedule. DoD personnel did not require the contractor to adhere to the delivery schedules for depot maintenance stated in the contract. During the first 2 years of the contract, the contractor did not meet the depot delivery schedule in the contract for all 13 aircraft that arrived at the depot for scheduled maintenance. DoD disregarded the depot delivery schedule and the contracting officer did not issue a modification to revise the schedule. As a result, the contractor delivered aircraft at the depot behind the original contract schedule without the contract administrator assessing liquidated damages based on that schedule. The contracting officer should modify the contract to include a realistic enforceable depot maintenance schedule agreeable to all parties.

Depot Authorization Forms. DoD personnel did not provide the contractor with depot authorization forms in sufficient time for the contractor to procure parts and materials, which also delayed the contractor's delivery of depot aircraft. The contract requires the contractor to have assets on-hand 30 days prior to the receipt of aircraft for scheduled depot work. The 30-day period allows time for the contractor to prepare and plan for an efficient depot operation and return the aircraft as soon as possible to the operating unit. However, the contractor will not procure the required items until the customer authorizes the procurement.

Our review of DoD authorization forms showed that the contractor received authorizations an average of 23 days prior to aircraft arrival for depot maintenance. Different users, forms, and requests for additional work complicated the authorization process. To lessen delays in the contractor delivery of depot aircraft for scheduled maintenance, C-20 users should submit depot authorization forms at least 90 days prior to aircraft arrival.

Contractor Oversight. The C-20 program and contracting offices did not provide the TRCOs with sufficient guidance to effectively monitor the contractor's performance at the main operating bases. The TRCOs function as the "eyes and ears" of the contracting officer by monitoring technical performance and reporting any potential or actual problems to the contracting officer. Yet, the

C-20 program and contracting offices did not provide a surveillance plan, perform site visits, or ensure that the TRCOs received adequate contract and aircraft training.

Surveillance Plan. The program and contracting offices did not provide the TRCOs with a surveillance plan to monitor contractor performance. The C-20 contractor logistics support contract does not require a surveillance plan because the contract is a supply contract. However, an important portion of the contract specifies the procurement of maintenance services. A surveillance plan should cover that portion of the contract. A surveillance plan outlines a process for evaluating actual contractor performance to determine conformity with contract requirements. Federal Acquisition Regulation 37.602-2, "Quality Assurance" states:

Agencies shall develop quality assurance surveillance plans when acquiring services (see 46.103 and 46.401(a)). These plans shall recognize the responsibility of the contractor (see 46.105) to carry out its quality control obligations and shall contain measurable inspection and acceptance criteria corresponding to the performance standards contained in the statement of work. The quality assurance surveillance plans shall focus on the level of performance required by the statement of work, rather than the methodology used by the contractor to achieve that level of performance.

TRCO oversight of the contractor at each of the operating bases was inconsistent. The TRCO inspections of contractor performance were irregular and poorly documented. The TRCOs at Kaneohe Bay and Ramstein Air Base performed infrequent inspections. The Ramstein Air Base TRCO, using his own initiative, developed a surveillance plan based on the C-21 contract. However, at the time of our visit, the plan was incomplete and the TRCO had not coordinated the plan with the contracting officer. The TRCOs for the Army and the Marines at Andrews AFB and the Army at Hickam AFB could not provide documentation of past inspections or a basic inspection plan. We believe that the TRCOs were well aware of the day to day status of their aircraft and interacted with the contractor on site. However, should the TRCO be unavailable or reassigned, there is no guidance for an alternate or successor to follow. The contracting officer should require development and implementation of a standard surveillance plan to improve the oversight of the contractor by the TRCOs.

Site Visits. Program and contracting personnel had rarely visited the main operating bases and as a result were unaware that the TRCOs were misinterpreting some contract requirements. Program personnel made one trip to Andrews AFB and one trip to Ramstein Air Base shortly after contract award. However, no one from the program or contracting office had visited all four main operating bases. Program and contracting personnel were unaware of some of the problems that the TRCOs encountered while monitoring the contract or the differences occurring between the sites. For example, program personnel were unaware that the TRCOs incorrectly believed that their signature on the contractor monthly status report

indicated receipt rather than concurrence with the contractor's status report. The program office personnel should make periodic visits to the main operating bases.

Training. The TRCOs at the main operating bases had not received contractual and maintenance training specific to the C-20 aircraft. Also, the program office did not sponsor a TRCO conference or training to discuss contract and program issues until May 1998, more than 2 years after contract award. Most TRCOs attended a general contracting officer's representative course and one TRCO attended a contract training class for the C-21 aircraft, which has different contract requirements. Some of the TRCOs had not attended TRCO or contract-related training in over 7 years. Because DoD did not provide training, the TRCOs had to rely mainly on the subcontractor's assistance to identify and verify the completed work and the hours of performance. Reliance on the subcontractor hindered the independent function the TRCOs should have in their oversight functions of the contractor's performance.

The TRCOs and industrial specialists that approve work performed and negotiate the hours allowable for O&A items at the depot had not received familiarization training on the C-20 aircraft. The staff requested this training but DCMC denied the request. Again, absence of the training resulted in personnel relying on the contractor to provide details, rather than the personnel making independent judgments.

Review of O&A Costs. DoD personnel did not understand the review process for O&A costs (subcontractor effort). DoD personnel did not review O&A costs for reasonableness prior to the contractor submitting the charges for payment. TRCOs believed that the review occurred at DCMC. DCMC personnel believed that the TRCOs performed the review at the main operating bases. The TRCO did not routinely review the completed O&A forms. DoD personnel did not review the O&As to verify that the contractor claimed accurate hours or actually performed the task. At the time of this audit, the TRCOs are not required to review the O&As. TRCOs should review the O&A (subcontractor effort) forms for reasonableness after the subcontractor completes the work. In addition, the contracting officer should clarify to the TRCOs what costs are allowable O&A costs, the review process for subcontractor O&A costs, and O&A authorization responsibilities.

Conclusion

Government oversight and management of the C-20 contractor logistics support contract was not effective. Vague and poor contract language and poor communication among DoD personnel involved in the administration of the contract caused numerous oversight problems. Time, effort, and money were expended because of the vague contract language and poor communication. Steps

are in process to revise the contract and develop a surveillance plan, but it has taken almost 3 years for the program and contracting office to perform these actions. Turnover of personnel such as four contracting officers at Oklahoma City Air Logistics Center, the administrative contracting officer at DCMC, St. Louis, and other C-20 personnel, have contributed to slow implementation of necessary changes. DoD and contractor personnel need to work together to clarify contract language and improve communication. The C-20 Program personnel are considering resoliciting the C-20 contractor logistics support contract for FY 2000 for numerous reasons. If the contract is resolicited, the future contract should be responsive to the issues discussed in this report

Recommendations, Management Comments, and Audit Response

Revised and Deleted Recommendations. As a result of management comments, we revised Recommendations 1.f and 1.i. to clarify our intent and deleted Recommendation 2. to move the C-20 operations from Marine Corps Base Hawaii - Kaneohe Bay to Hickam Air Force Base.

1. We recommend that the Commander, Oklahoma City Air Logistics Center:

a. Request the Defense Contract Audit Agency to perform an incurred cost audit of items purchased and repaired to date under contract F34601-95-C-0538 line items X069, X070, and X072 to determine whether the contractor complied with Federal Acquisition Regulation 31.2 as required by contract clause B-01 (C), "Cost Reimbursement Items." The audit should, as a minimum, determine whether the contractor obtained adequate competition, made proper analysis of quoted prices, made a reasonable attempt to negotiate with vendors, had a reasonable basis for vendor selection, and has reasonable management controls over placement and administration of orders. The audit should identify the costs that are unreasonable and excessive to the Government for any purchases not made in compliance with Federal Acquisition Regulation 31.2.

b. Request the contracting officer to review the costs incurred by Sabreliner in connection with tire purchases as well as other new and repaired parts. The contracting officer should recover those amounts that exceed the reasonable acquisition costs for such items.

c. Require Sabreliner to determine and document whether DoD is obtaining the best value price for parts (new and repairables) that are

currently *. If DoD is not receiving the best value, require Sabreliner to use the best value for all parts procured or repaired under the contract.

d. Request the Defense Contract Management Command perform a followup review of the contractor's purchasing system.

Management Comments. The Air Force concurred and stated that the Defense Contract Audit Agency agreed to perform an incurred cost audit of purchased and repaired materials, and that the contracting officer would seek to recover amounts that exceeded the reasonable acquisition costs. The Air Force stated that Sabreliner would revise their written procedures about best value purchasing methods by December 1998. Finally, the Air Force stated that the Defense Contract Management Command completed a contractor purchasing system review for the period July 1997 through June 1998. The Defense Logistics Agency stated that as a result of findings, a special contractor purchasing system review was completed in July 1998. In August, the administrative contracting officer extended approval of the contractor purchasing system. The Defense Logistics Agency also stated that it is evident from the findings that Sabreliner has not purchased the lowest priced parts and services from *, but * Sabreliner has negotiated a better discount than offered to the general public.

e. Revise contract F34601-95-C-0538 to:

(1) Clarify section 7.3., "Condemnation and Repair of GFM [Government Furnished Material] . . . The contractor will not repair items where the cost of parts and labor exceeds 75% of the cost of a new item from a licensed/certified vendor of that item." Clarify what the cost basis for the threshold for repairs is and determine whether it is any licensed vendor's catalog price or * price.

Management Comments. The Air Force nonconcurred and stated that contract revision is unnecessary as the contractor is required to conduct a repair or replace analysis based on a threshold limit of 75 percent of a new cost. The contractor is expected to explore all cost options to obtain a best value for the Government.

Audit Response. The Air Force comments are nonresponsive to the recommendation. We agree that the contractor is required to conduct a repair or replace analysis based on the threshold of a new cost. However, a basis is needed for the new cost because the replacement cost can vary greatly depending on whether the item is purchased from the original equipment manufacturer, original aircraft manufacturer, or some other source. Contract section 7.3 does not require the contractor to use the lowest new cost basis in determining whether to repair or reprocure an item. The clause should explicitly state that the contractor should use the lowest new cost basis among aircraft manufacturer, equipment manufacturer, or other new cost basis considering Government discounts. We request that the

*Proprietary data omitted.

Air Force reconsider its position on clarifying the contract and provide additional comments when responding to the final report.

(2) Specify when cost-reimbursable over and above costs (subcontractor effort) can be charged, what expenses are allowable under the terms of the contract, and what documentation must be retained to support the claim. The revision should include guidance for on- and off-site maintenance and repairs, parts pick-up and expediting, and alternate main operating bases.

Management Comments. The Air Force concurred and stated it is difficult to define all over and above work so the contract language was kept broad for flexibility. The Air Force stated that the contracting officer would provide formalized training to the technical representatives to the contracting officer and work with the contractor to ensure that there is a clear understanding for this requirement.

Audit Response. Although the Air Force concurred with the recommendation, we believe the alternative proposal will not adequately satisfy the recommendation. We agree that training the technical representatives to the contracting officer and working with the contractor will be an improvement. However, because of the high personnel turnover, we believe that fundamental ground rules need to be documented in the contract to avoid future inconsistent interpretations by the contractor and the technical representatives to the contracting officer. We request that the Air Force reconsider its position on clarifying the contract and provide additional comments when responding to the final report.

(3) Include language to require that the Navy Kaneohe Bay aircraft are adequately supported at Hickam Air Force Base without additional costs.

Management Comments. The Air Force nonconcurred and stated that the contract already provides maintenance support for aircraft recoveries at Hickam Air Force Base during normal operating hours at no additional cost. In addition, the contracting officer agreed to provide a clarification memorandum to ensure that the contractor understands cost assessments in this area. The Navy commented that based on other contract problems identified in this report, the contract should be changed to include support from Hickam Air Force Base for Navy C-20 aircraft without a double charge for services.

Audit Response. The Air Force comments are nonresponsive to the recommendation and are contradicted by the Navy comments. We cannot find anything in the contract to support the Air Force position that maintenance support exists for Navy Kaneohe Bay aircraft at Hickam Air Force Base during normal operating hours at no additional cost. There is a contract clause that states that contractor personnel will not have maintenance responsibility for transient C-20 aircraft. Since the main operating base for Navy Kaneohe Bay aircraft is not Hickam Air Force Base, we believe the aircraft are considered transient. During

the period December 1995 through December 1997, the subcontractor prepared 257 over and above (subcontractor effort) forms valued at about \$ * for maintenance performed on Navy aircraft generally during normal operating hours at Hickam Air Force Base. We request that the Air Force reconsider its position on clarifying the contract and provide additional comments when responding to the final report.

(4) Clarify contract section 2.1.3. related to the operational hours of the contractor operated and maintained base supply. The revision should state whether the Government requires staffing or availability.

Management Comments. The Air Force nonconcurrent and stated that the contract language concerning the contractor operated and maintained base supply did not appear to be ambiguous. The Air Force stated that the technical representatives to the contracting officer inappropriately interpreted the contract language. The contracting officer provided clarification as to the proper interpretation of the contract language.

Audit Response. The Air Force comments are nonresponsive to the recommendation. Since the technical representatives to the contracting officer and the subcontractor at each of the sites interpreted the contractor operated and maintained base supply contract clause differently and the contracting officer had to provide verbal clarification of the contract clause, it is obvious the clause in the contract is ambiguous. We request that the Air Force reconsider its position on clarifying the contract and provide additional comments when responding to the final report.

(5) Include a realistic enforceable depot maintenance schedule agreeable to all parties.

Management Comments. The Air Force nonconcurrent and stated the C-20 program office had established a realistic and enforceable delivery schedule. The Air Force also stated that it was unrealistic to modify the contract with every schedule change.

Audit Response. We disagree with the Air Force comments. The Air Force and the contractor disregarded the depot maintenance delivery schedule stated in the contract. As of May 1998, the Air Force had not modified the contract to include a realistic and enforceable depot maintenance schedule. If the Air Force has established an enforceable schedule it should be included in the contract. We request that the Air Force reconsider its position on clarifying the contract and provide additional comments when responding to the final report.

f. Identify whether the Federal Aviation Administration maintenance guidance or the Services' maintenance guidance takes precedence and modify the contract as required.

*Proprietary data omitted.

Management Comments. The Air Force nonconcurred and stated that the contract was written to meet the needs of each of the Services. The contractor had a requirement to first maintain the aircraft according to Federal Aviation Agency requirements and thereafter to the applicable Services' regulations. The Air Force stated it would be inappropriate to identify one particular Service regulation as preceding guidance for all aircraft.

Audit Response. We revised the recommendation based on the Air Force comments and to clarify our intent. The Air Force comments met the intent of the recommendation and no additional comments are needed.

g. Develop and implement guidance for the technical representatives to the contracting officer as to what costs are allowable over and above costs (subcontractor effort) and over and above authorization responsibilities.

Management Comments. The Air Force concurred and stated that the contracting officer will implement a technical representative to the contracting officer management plan no later than January 31, 1999.

h. Require the Services to submit the depot authorization forms to the contractor for scheduled maintenance at least 90 days prior to aircraft arrival at the depot so the contractor can meet their contractual requirement for stocking parts 30 days in advance.

Management Comments. The Air Force nonconcurred and stated that Technical Order 00-25-4 requires the user to submit an Air Force Technical Order Form 103 [or equivalent form] to the Oklahoma City Air Logistics Center 45 days prior to aircraft depot input. The Oklahoma City Air Logistics Center then forwards the depot request form to the contractor within 30 days of aircraft depot input. The Air Force stated that it was unnecessary to submit the form earlier because it reduced programming flexibility. The Air Force stated that it had addressed the problem of delinquent submissions by emphasizing the suspense requirement to the technical representatives to the contracting officer at the program management review

Audit Response. We disagree with the Air Force comments. Because the Oklahoma City Air Logistics Center sends the depot aircraft request form to the contractor within 30 days of aircraft depot input, the contractor is prevented from meeting the contract requirement to have parts in stock at least 30 days prior to aircraft depot input. Requiring the Services to submit the forms at least 90 days prior to aircraft depot input would allow the contractor to procure the parts in sufficient time to meet the contract requirements for stocking parts 30 days in advance and at reasonable prices. It would also result in fewer delays in return of the aircraft. We request that the Air Force reconsider its position and provide additional comments when responding to the final report.

i. Develop and implement a standard surveillance plan for use by the technical representatives to the contracting officer to provide improved documentation, standardization and continuity.

j. Schedule periodic site visits by the program office to the main operating bases and the depot facility to assess operations and problems with the contract to aid in resolving differences in a timely and efficient manner.

Management Comments. The Air Force concurred and stated that completion of the C-20 surveillance plan will be accomplished no later January 31, 1999. Also, the C-20 travel budget was doubled to allow for site visits as necessary.

k. Provide training to technical representatives to the contracting officer and other DoD representatives on the contract and maintenance specific to the C-20 aircraft in a timely manner after assignment to the C-20 program.

Management Comments. The Air Force concurred and stated that the contracting officer will implement a technical representative to the contracting officer management plan no later than January 31, 1999, which includes formalized training on C-20 aircraft. The Defense Logistics Agency commented that the Defense Contract Management Command, St. Louis, personnel are scheduled to obtain specific Gulfstream III and IV training in FY 1999.

l. Require the technical representatives to the contracting officer to review and approve the over and above (subcontractor effort) forms to verify performance of work at the main operating bases prior to the subcontractor submitting the forms for payment.

Management Comments. The Air Force nonconcurred and stated that the administrative contracting officer was predominately responsible for reviewing over and above costs for reasonableness prior to the contractor submitting the charges for payment. The technical representatives to the contracting officer are responsible for verifying work performance and not determining allowability of costs.

Audit Response. We revised the recommendation based on management comments and clarified our intent for the technical representatives to the contracting officer to review work performed instead of costs. Based on the revised recommendation, we consider the Air Force comments to be partially responsive to the recommendation. We agree with the Air Force that the review of the reasonability of costs is an administrative contracting officer's duty and that the technical representatives to the contracting officer are responsible for verifying work performance. However, the technical representatives to the contracting officer were preapproving the work to be performed and did not review the over and above (subcontractor effort) forms once the work was completed. There is no individual determining whether the hours claimed by the subcontractor are reasonable and in accordance with the contract. While the over and above form

Oversight of the C-20 Contractor Logistics Support Contract

will be reviewed by the administrative contracting officer and the costs possibly reviewed in a Defense Contract Audit Agency audit, it would be beneficial to the Government to require the technical representatives to the contracting officer to sign off on the over and above (subcontractor effort) form to verify that the work was performed in a satisfactory manner and that the hours claimed were accurate. We request that the Air Force provide comments to the revised recommendation.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

Work Performed. We evaluated the C-20 aircraft maintenance contract, F34601-95-C-0538, estimated at about \$ * million and the Government administration of that contract. We reviewed overall policies, procedures, and documentation related to the C-20 contract. For the period, October 1995 through February 1998, we reviewed selected monthly status reports, maintenance records, depot records, COMBS transactions, and 580 O&As valued at about \$304,000 for the four main operating bases.

We calculated the DoD incurred additional costs of about \$887,000 for about 2,013 aircraft tires valued at about \$1.9 million purchased from October 1995 through April 7, 1998. In addition, based on past history of purchases, we calculated potential monetary benefits of about \$1.26 million based on 3,442 aircraft tires to be ordered for the C-20 program over the remainder of the contract.

Also, we interviewed DoD, Army, Navy, Air Force, Marine, contractor, and subcontractor personnel involved with the C-20 program to determine whether contracting functions were properly performed. However, we did not review the management control program because the scope of the audit was limited to contractual actions related to contract F34601-95-C-0538.

DoD-wide Corporate Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, DoD has established 6 DoD-wide corporate level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following objective and goal.

Objective: Fundamentally reengineer DoD and achieve a 21st century infrastructure. **Goal:** Reduce costs while maintaining required military capabilities across all DoD mission areas. **(DoD-6)**

General Accounting Office High Risk Area. The General Accounting Office has identified several high risk areas in the Department of Defense. This report provides coverage of the Defense Contract Management high risk area.

*Proprietary data omitted.

Audit Type, Dates, and Standards. We performed this economy and efficiency audit from October 1997 through July 1998 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. The audit did not rely on computer processed data or statistical sampling procedures.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD and Sabreliner Corp., St. Louis, Missouri; Lear Siegler Services, Inc., Oklahoma City, Oklahoma; Gulfstream Aerospace Corp., Savannah, Georgia; Goodyear Tire and Rubber Company, Dallas, Texas; and Garrett Aviation Services, Augusta, Georgia. Further details are available upon request.

Summary of Prior Coverage

Army Audit Agency Report, Report No. AA 96-757, "Audit of Aviation Maintenance Contracts," July 15, 1996

Air Force Audit Agency, Project 96062029, "Financial Management of Aircraft Maintenance Contractor Logistics Support Operations," June 29, 1998

Inspector General, Air Force, Report No. PN 96-603, "Functional Management Review - Quality of Contract Aircraft Maintenance," July 1, 1996

Appendix B. Summary of Allegations and Audit Results

The results of the allegations to the Defense Hotline that the integrity of the C-20 fleet was compromised and that the C-20 COMBS was not operated as required by the contract are discussed below. The complainant made the allegations specific to Ramstein Air Base.

Allegation 1. The integrity of the C-20 fleet was compromised as a result of subcontractor manpower reductions.

Audit Results. The allegation was unsubstantiated. We determined that the subcontractor performing field maintenance made significant personnel reductions when compared to the previous contractor. However, we did not find that the integrity of the aircraft was compromised. In addition, DoD did not purchase a fixed number of hours or personnel but relied on mission capable rates for aircraft and supply. The subcontractor performed required maintenance and aircraft mission capable rates were higher than the minimum required by the contract with few exceptions. Also, missions were performed as required and the aircraft users did not express concern about subcontractor performance related to aircraft safety issues.

Allegation 2. The subcontractor was not operating the COMBS in accordance with the terms of the contract.

Audit Results. The allegation was partially substantiated. We determined that the contract required the COMBS to be operated 16 hours a day, 5 days per week. The contract did not explicitly state that a COMBS employee be present during the COMBS operating hours. The subcontractor interpreted the contract to mean that the COMBS only be available during operating hours. We determined that the COMBS was not staffed at 100 percent during the specified operating hours. However, the COMBS was accessible to the mechanics at all times and there was no adverse impact to maintenance operations. The contractor and TRCOs interpreted the contract as calling for the COMBS to be available rather than a person physically present for the hours specified. See the finding for additional details.

Appendix C. Costs for Aircraft Tires

We calculated the unnecessary incurred costs for aircraft tires purchased for the C-20 program by multiplying the number of tires purchased times the difference in prices of tires (* versus Goodyear). Additionally, we added the contractor loadings used for FYs 1996 and 1997 (* percent) and for FY 1998 (* percent) to determine the unnecessary incurred costs. We calculated about \$887,000 in unnecessary costs out of about \$1.9 million for aircraft tires purchased from October 1995 through April 7, 1998. The following table shows our calculations for the unnecessary costs.

Unnecessary Past Costs Incurred						
Model Number	FY	Tires ¹ Ordered	Price ^{2,3,4} Difference	Subtotal	Loadings ⁵ (Percent)	Total
406-1 Main Tire for GIV-SP, GIV w/ABS	96, 97	85	\$ *	\$ *	*	\$ *
	98	50	*	*	*	*
407-3 Nose Tire for GII, GIII, GIVs	96, 97	536	*	*	*	*
	98	158	*	*	*	*
206-33 Main Tire for GII, GIII, GIV	96, 97	982	*	*	*	*
	98	202	*	*	*	*
Total Unnecessary Costs Incurred						\$886,699
Notes:						
¹ Ordered October 1995 to April 1998						
Calculations in footnotes 2-4 are based on 1998 * price less 1998 Goodyear prices.						
² \$* = \$ * - \$ *						
³ \$ * = \$ * - \$ *						
⁴ \$ * = \$ * - \$ *						
⁵ Contractor used loadings of about * percent for FYs 1996 and 1997, but per February 1998 Sabreliner-Government agreement, loading rates for FY 1998 were * percent.						

*Proprietary data omitted.

Appendix D. Potential Monetary Benefits from Future Purchases of Aircraft Tires

We calculated the potential monetary benefits by determining an aircraft tire usage profile. From this, we calculated what the estimated usage of aircraft tires would be for the remainder of the contract, May 1998 to September 2002, if usage continues at the same rate. We multiplied this number by the cost difference between the FY 1998 prices charged by * to Goodyear FY 1998 prices. Additionally, we added the contractor agreed upon loadings to determine the overall potential monetary benefits. The following table shows our calculations. Finding recommendations 1.a. through 1.d. address this issue.

Potential Monetary Benefits Calculations							
<u>Model Number</u>	<u>Qty.</u>	<u>Months¹ Expired</u>	<u>Per Month</u>	<u>Months¹ Left</u>	<u>Projected² Tires to Order</u>	<u>Price^{3,4,5} Difference</u>	<u>Projected Savings</u>
406-1 Main tire for GIV-SP, GIV w/ABS	135	31	4.35	53	231	\$ *	\$*
407-3 Nose tire for GII, GIII, GIVs	694	31	22 39	53	1187	*	*
206-33 Main tire for GII, GIII, GIV	1184	31	38.19	53	2024	*	*
Projected Savings Before Loadings							\$ *
Loadings (*)⁶							<u>*</u>
Projected savings over life of contract							\$1,258,260
Notes:							
¹ Seven year contract, October 1995 to September 2002, (1 base year and 6 option years); 84 months 31 months expired (October 1995-April 1998), 53 months left (May 1998-September 2002)							
² No factors known to change usage of aircraft, assume same usage as before. Numbers are rounded. The following are based on FY 1998 * prices less Goodyear prices.							
³ \$ * = \$ * - \$ *							
⁴ \$ * = \$ * - \$ *							
⁵ \$ * = \$ * - \$ *							
⁶ Loadings, per February 1998 Sabreliner-Government agreement, are to be as stated in contract B-01(C). * percent used as constant factor for our calculations rather than increasing rates (for example, * percent, * percent etc. in outlying years).							

*Proprietary data omitted.

Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Deputy Under Secretary of Defense (Acquisition Reform)
Deputy Under Secretary of Defense (Logistics)
Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Public Affairs)

Department of the Army

Director, Army National Guard
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Marine Corps

Commandant, U.S. Marine Corps

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Assistant Secretary of the Air Force (Acquisition)
Commander, U.S. Air Forces in Europe
Auditor General, Department of the Air Force

Unified Commands

Commander in Chief, U.S. European Command
Commander in Chief, U.S. Pacific Command

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
 Commander, Defense Contract Management Command
Director, National Security Agency
 Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
 General Accounting Office

Chairman and ranking minority member of each of the following congressional committees
and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology,
 Committee on Government Reform
House Subcommittee on National Security, International Affairs, and Criminal Justice,
 Committee on Government Reform
House Committee on Armed Services

Part III –Management Comments

Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

Office Of The Assistant Secretary

0 4 JAN 1993

MEMORANDUM FOR DOD IG

FROM SAF/AQ
1060 Air Force Pentagon
Washington DC 20330-1060

SUBJECT Response to DoD IG Report: Allegations to the DoD Hotline on Contract
Maintenance for the C-20 Aircraft (Project No 8CK-8005)

Together with HQ AFMC/PK, SAF/AQC established a review team to assess the findings presented in the subject report. The team composition included contracting and maintenance experts from AF/ILM, SAF/AQC and AFMC/PK. This review was conducted on 5-6 Nov 98. Attached is the Air Force's response to the subject report as a result of our review.

In summary, we concur with the need for corrective action associated with several of the findings in your report. Some of your recommendations have already been accomplished and others will be worked as appropriate. Additionally, we will ensure that HQ AFMC takes action to improve overall management of the C-20 Contractor Logistics Support contract.

Frank J. Anderson Jr.
FRANK J. ANDERSON, Jr., Brig Gen, USAF
Deputy Assistant Secretary (Contracting)
Assistant Secretary (Acquisition)

Attachment:
Response to DoD IG Report

cc
AF/ILM
AFMC/PK
OC-ALC/LK
OC-ALC/PK

DRAFT

AF REVIEW TEAM ASSESSMENT
OF
DRAFT DOD IG AUDIT REPORT
CONTRACTOR LOGISTICS SUPPORT (CLS)
FOR THE C-20 AIRCRAFT

PROJECT NO. 8CK-8005

I. BACKGROUND

Together with HQ AFMC/PK, SAF/AQC established a review team to assess the findings presented in the subject DoD IG report. The team composition included contracting and maintenance experts from AF/ILM, SAF/AQC and AFMC/PK. Additional input was provided by DCMC and DCAA personnel. The examination of all facts and data relating to the alleged improper contracting actions and procedural improprieties was conducted at OC-ALC with brief discussions with Sabreliner.

The team met at OC-ALC on 5-6 Nov 98. Input for the team's assessment was received from documentation and discussions provided by the OC-ALC/LK C-20 team and DCMC and DCAA.

II. INTRODUCTION

The DoD IG's audit was performed in response to allegations to the DOD Hotline on potential violations of a contract for maintenance and repair of the C-20 aircraft. The contract contains fixed price and cost-reimbursable line items for a base year and 6 option years estimated at about \$ * million. As of 17 Jun 98, the Government had obligated about \$105M. The contract provided full and partial contractor logistics support for the C-20 aircraft fleet.

III. FINDINGS

a. Cost Monitoring: DoD personnel did not effectively monitor the reasonableness of Sabreliner's reimbursable costs for new and repaired parts on the contract. DoD was primarily concerned with the logistic support for the C-20 aircraft, and on the contractor achieving specified mission capable and supply rates. Although the contractor regularly achieved the specified mission capable and supply rates, the contractor incurred higher than anticipated costs. DoD personnel did not place sufficient emphasis on monitoring the contractor's cost. As a result, DoD may not have received the best value from the Sabreliner contract for about \$40 million for parts purchased or repaired for FYs 1996 and 1997.

DRAFT

1

DRAFT

Air Force response The responsibility for cost monitoring under this contract primarily resides with DCMC under its administrative contracting officer functions. To a large extent this finding deals with the adequacy of the contractors purchasing system. A recent review by DCMC extended the approval of Sabreliner's purchasing system. DCMC is planning to respond separately to this finding and the associated recommendation. Notwithstanding, we support the recommendation for an incurred cost audit by DCAA and will act accordingly to the results. Based on our communications with DCAA, they will perform an incurred cost audit in accordance with Government Auditing Standards, which will include testing of material items purchased and repaired using appropriate statistical sampling techniques.

b. Contract Language: DoD personnel did not properly manage the C-20 contractor logistics support contract because the contracting office awarded a contract that contained vague language. The contract language was vague on the rate used for material handling charges, on cost-reimbursable expenses for subcontractor effort related to O&A costs, and on the operation and requirements of the COMBS. Finally, the contract had conflicting language for maintenance guidance.

Material Handling Charges: DoD agreed to pay Sabreliner an additional \$11.9 million over the life of the contract because the contract was not clear regarding the loading rates that the contractor could apply for cost reimbursable items. The contracting office believed that the contract specified * while Sabreliner believed that the contract allowed a rate of about * applied to cost reimbursable items.

Air Force response: Concur. It is important to emphasize that payment of \$11.9 million to Sabreliner represents a potential expenditure if all options are ultimately exercised. OC-ALC recognized that the contract was not clear regarding loading rates for cost reimbursable items.

*

As a means to settle the rate dispute, OC-ALC personnel agreed to pay Sabreliner approximately \$1M per year in lieu of the contractor applying the additional overhead rate *. This payment began with the current option period and will continue as each option is exercised. It was also agreed that OC-ALC would not seek to recoup or otherwise recover the amounts paid prior to this settlement. This settlement amount does not necessarily reflect the actual cost for the effort associated with material processing, but constitutes a settlement that the parties believe to be equitable. The contract modification is P00108 and was made effective 17 February 1998.

Cost Reimbursable Expense for Subcontract Effort: DoD did not clearly specify what costs were allowable for O&A maintenance and repairs at and away from the main operating bases and for airport parts pick-up runs.

DRAFT

2

*Proprietary data omitted.

DRAFT

Air Force response: Concur It is important to emphasize that it is difficult and unrealistic to define all instances of O&A (subcontractor effort). Therefore, the C-20 office incorporated broad contract language to allow flexibility in meeting the objectives of the contract within the most expedient means possible.

COMBS Operation: *The contractor did not staff the COMBS the hours required by the contract because the contract requirements were ambiguous for the COMBS hours of operation. The contractor and the TRCOs interpreted the contract as calling for the COMBS to be available rather than a person physically present for the hours specified.*

Air Force response: Non-concur Upon review of the contract language concerning COMBS Operation, there does not appear to be any ambiguity in the contract language. Rather, it appears that the TRCOs inappropriately interpreted the contract language. As stated in your report, the PCO provided proper interpretation of the contract language. As a result, the TRCOs and the contractor have a clear understanding of this requirement. The contractor is meeting this contract requirement and the users are satisfied with the contractor's performance.

Maintenance Guidance: *The contract contains conflicting language regarding maintenance guidance. The C-20 is a commercial derivative aircraft and the contract requires that the contractor maintain the aircraft to Federal Aviation Administration requirements. However, the contract also states, "maintenance will be in accordance with applicable technical orders and directives unless otherwise directed." The differing guidance requires the contractor to perform similar maintenance tasks differently at the main operating bases and lessens the advantage to operating a commercial aircraft.*

Air Force response: Non-concur This contract is written to meet the needs of the Army, the Navy, and the Air Force. The Federal Aviation Regulation requires each commercial owner/operator to develop a company manual detailing their specific requirements. Although there may be some similarity between maintenance tasks, each military service has operational and maintenance guidelines to meet their own mission requirements. This is not dissimilar from how the commercial sector conducts business.

c. Improving Communication: *Your report states that poor communication among program, contracting, operating base, and DCMC personnel contributed to inefficient oversight of the contract and caused delays in depot operations, inconsistencies in oversight among the main operating bases allowed the contractor to submit O&A costs without review.*

Depot Operation: *DoD personnel did not effectively manage contractor depot maintenance scheduling. DoD personnel did not require the contractor to adhere to the contractor's depot delivery schedule nor provide the contractor with authorization forms in sufficient time for the contractor to procure parts and materials.*

DRAFT

3

DRAFT

Air Force response: Concur in part. The depot maintenance schedule has changed significantly from contract award due to increased operational requirements, changes in maintenance inspection requirements, changes in aircraft utilization rates, depot loading, etc. The ACO has negotiated all delivery dates and subsequent contract modifications have been issued. We do not concur with your statement that they did not require the contractor to adhere to the delivery schedule. The contractor has delivered all aircraft on time or has been assessed liquidated damages accordingly.

OC-ALC recognizes that they have not always been timely in providing the contractor with the proper authorization forms. Before the C-20 program office can issue the depot authorization form to the contractor, they must first receive the appropriate forms from the using activity. As provided in T.O. 00-25-4, the services have 45 days to submit a Form 103 to the SPD. The contract allows the SPD to notify to the contractor NLT 30 days prior to input. In the past, the Services have not always submitted the paperwork on time. This problem has been addressed to the TRCOs at the Program Management Conference and the suspense will be emphasized in future program conferences.

Contractor Oversight. *The C-20 program and contract offices did not provide the TRCOs with sufficient guidance to effectively monitor the contractor's performance at the main operating bases. The TRCOs function as the "eyes and ears" of the contracting officer by monitoring technical performance and reporting any potential or actual problems to the contracting officer. Yet, the C-20 program and contracting offices did not provide a surveillance plan, perform site visits, or ensure that the TRCOs received adequate contract and aircraft training.*

Air Force response: Concur. The C-20 program office recognizes the need for improved guidance for TRCOs. They have drafted a surveillance plan that should improve contractor oversight and enhance the TRCOs abilities to provide quality oversight. The surveillance plan is currently in a review process. Their goal is to have it implemented NLT 31 Jan 99. With regards to training, the TRCOs were provided guidance at the May 1998 TRCO Conference concerning their responsibilities for serving as a Contracting Officer representative. However, this conference served mainly to address current issues. As a means to improve in this area, the PCO will implement a TRCO management plan to include, at a minimum, formalized training concerning TRCO limitations, expectations and responsibilities with contracting issues. This management plan will also implement procedures for formally appointing individuals to serve as TRCOs. Additionally, the C-20 Program Office has doubled their travel budget to accommodate the performance of site visits.

Review of O&A Costs: *DoD personnel did not understand the review process for O&A costs (subcontractor effort). TRCOs should review the O&A (subcontractor effort) forms for reasonableness after the subcontractor completes the work. In addition, the*

DRAFT

DRAFT

contracting officer should clarify to the TRCOs what costs are allowable O&A costs, the review process for subcontractor O&A costs, and O&A authorization responsibilities

Air Force response: Concur in part. TRCOs require improved quality training overall. Consistent with standard practice, review of O&A costs for reasonableness prior to the contractor submitting the charges for payment is predominately an ACO responsibility. The TRCOs responsibility is to verify performance of work relating to the charges for payment. They are not responsible for determining allowability of costs. It is our understanding that DCMC will be responding to this issue.

IV. RECOMMENDATIONS

a. Recommendation. DCAA should perform an interim incurred cost audit of all items purchased and repaired to date under contract F34601-95-C-0538 line items X069 X070, and X072 to determine if the contractor has complied with Federal Acquisition Regulations (FAR) 31.2 as required by contract clause B-01 (C), "Cost Reimbursable Items." The audit should identify any excessive purchases not made in compliance with FAR 31.2

Action Concur. DCAA has agreed to perform an incurred cost audit of purchased and repaired materials and it is our understanding that they will be responding to recommendation. We will act appropriately to their audit.

b. Recommendation. Request the contracting officer review the incurred costs by Sabreliner in connection with tire purchases as well as other new and repaired parts. The contracting officer should recover those amounts that exceed the reasonable acquisition costs for such items.

Action Concur. Sabreliner's incurred cost for previous tire purchases, as well as other new and repaired parts, will be reviewed in the DCAA audit. If the audit reveals that purchases were not made in compliance with the FAR, the contracting officer will seek to recover costs that exceed reasonable acquisition costs for these items as appropriate.

c. Recommendation. Require Sabreliner to determine and document whether the DoD is obtaining the best value price for parts (new and repairable) that are currently

** If DoD is not receiving the best value for all parts, require Sabreliner to use the best value for all parts procured or repaired under the contract*

Action Concur. The Contractor Purchasing System Review report dated 1 Oct 97 indicates Sabreliner has some deficiencies in their purchasing policies and procedures. Since then, Sabreliner has developed an action plan to correct deficiencies identified in this review. Specifically, Sabreliner will revise current written policy and procedures which adequately addresses best value purchasing methods and should be complete by Dec 98.

DRAFT

5

DRAFT

d. Recommendation. Request that DCMC accomplish a follow-up review of the contractor purchasing system.

Action Concur DCMC conducted a Contractor Purchasing System Review from 20-31 Jul 98 for the contractor's activity covering 1 Jul 97 through 23 Jun 98. Subsequently, Sabreliner's purchasing system was approved on 28 Aug 98 for the Contractor Purchasing System Review (CPSR) period of performance.

e. Revise contract F34601-95-C-0538:

*(1) Recommendation. Clarify section 7.3 Condemnation and repair of G1-M, "The contractor will not repair items where the cost of parts and labor exceed 75% of the cost of a new item from a licensed/certified vendor of that item." Clarify what the cost basis for the threshold for repairs is and determine whether it is any licensed vendor's catalog price or * price.*

Action: Non-concur We do not feel that the contract requires revision. It is clear within the contract that the contractor is required to conduct a "repair or replace" analysis based on a threshold limit of 75% of a new cost. It is not in our best interest to specify the cost basis in exact terms. The contractor is expected to explore all cost options to obtain a best value for the Government and report to the ACO. If the contractor finds that repair costs will be 75% or greater than the new price cost, they are obligated to report to the ACO and ask for a decision to repair or replace. In those instances where the unit is a high cost item, the ACO will coordinate the decision with the OC-ALC Program Office. Given the visibility of this report, the contractor is sensitive to our expectations of achieving best value.

(2) Recommendation. Specify when cost reimbursable O&A costs (subcontractor effort) can be charged, what expenses are allowable under the terms of the contract and what documentation must be retained to support the claim. The revisions should include guidance for on and off site maintenance and repairs, parts pick-up and expediting and alternate main operating bases.

Action Concur It is difficult and unrealistic to define all instances of O&A (subcontractor effort). OC-ALC incorporated broad contract language to allow flexibility in meeting the objectives of the contract with the most expedient means. The contract contains a standard FAR clause that discusses the contractor's responsibilities for submitting allowable costs with the appropriate documentation. In lieu of revising the contract, the Contracting Officer will provide formalized training to TRCO and work closely with the contractor to ensure that there is a clear understanding for this requirement.

(3) Recommendation. Include language to require the Navy Kaneohe Bay aircraft are adequately supported at Hickam Air Force Base without additional costs.

Action Non-concur The contract already provides maintenance support for aircraft recoveries at Hickam AFB during normal operating hours at no additional cost.

DRAFT

6

DRAFT

However, the PCO has agreed to provide a clarification memo to ensure that the contractor understands how costs shall be assessed in this area

(4) Recommendation Clarify contract section 2.1.3. related to the operational hours of the Contractor Operated and Maintained Base Supply (COMBS). The revision should state whether the Government requires staffing or availability.

Action. Non-concur. Upon review of the contract language concerning COMBS Operation, there does not appear to be any ambiguity in the contract language. Rather, it appears that the TRCOs inappropriately interpreted the contract language. As stated in your report, the PCO provided clarification as to the proper interpretation of the contract language and the TRCOs, as well as the contractor, have a greater understanding for this area. The contractor is meeting this contract requirement and the users are satisfied with their performance.

(5) Recommendation. Include a realistic enforceable depot maintenance schedule agreeable to all parties.

Action. Non-concur. The C-20 program office has established a realistic and enforceable schedule and is making reasonable efforts to ensure that the contractor adheres to the stated delivery schedules. It is not efficient to continually modify the contract for delivery schedule changes each and every time the schedule slips. Liquidated damages have been assessed as appropriate.

f. Recommendation: Identify which maintenance guidance takes precedence and modify the contract as required.

Action. Non-concur. This contract is written to meet the needs of the Army, the Navy, and the Air Force. First, the contractor is required to maintain the aircraft to Federal Aviation Administration requirements. Thereafter, the applicable service regulation takes precedence. Although there may be some similarity between maintenance tasks, each military service has operational and maintenance guidelines to meet their own mission requirements. It would be inappropriate to identify one particular service regulation as preceding guidance for all aircraft.

g. Recommendation: Develop and implement guidance for the Technical Representatives of the Contracting Officer as to what costs are allowable over and above costs (subcontractor effort) and over and above authorization responsibilities.

Action: Concur. The PCO will implement a TRCO management plan to include formalized training concerning TRCO limitations, expectations and responsibilities with contracting issues. Completion of this plan will be accomplished NLT 31 Jan 99.

h. Recommendation: Require the services to submit the depot authorization forms to the contractor for the schedule maintenance at least 90 days prior to the aircraft arrival at the depot so the contractor can meet the contractual requirement for stocking parts 30 days in advance.

DRAFT

7

Revised

DRAFT

Action: Non-concur. T O 00-25-4 requires the user to submit an AFTO Form 103 to the SPD 45 days prior to input. The SPD then forwards the depot request form to the contractor within 30 days of depot input. Earlier submission of the form is unnecessary and reduces programming flexibility. The SPD has addressed the problem of delinquent submissions by emphasizing the suspense requirement to the TRCOs in the Program Conference.

i. Recommendation: Develop and implement a standard surveillance plan for use by the TRCO to provide improved documentation, standardization and continuity.

Action: Concur. The surveillance plan is currently in a review process. Completion of this plan will be accomplished NLT 31 Jan 99.

j. Recommendation: Schedule periodic site visits by the program office to the main operation bases and depot facility to assess daily operations and problems with the contract to aid in resolving differences in a timely and efficient manner.

Action: Concur. OC-ALC has doubled their C-20 travel budget to increase the frequency of visits to the sites. Frequency of site visits will be conducted as often as necessary to promote greater awareness.

k. Recommendation: Provide training to TRCOs and other DoD representatives on the contract and maintenance specific to the C-20 aircraft in a timely manner after assignment to the C-20 program.

Action: Concur. DoD personnel that perform TRCO duties are normally selected based on their extensive maintenance background. In addition, the C-20 Program Office has drafted a surveillance plan that should improve contractor oversight and enhance the TRCOs abilities to provide quality C-20 maintenance oversight. The surveillance plan is currently in a review process. The TRCOs were provided guidance at the May 1998 TRCO Conference concerning their responsibilities for serving as a Contracting Officer representative. As a means to improve in this area, the PCO will be directed to implement a TRCO management plan to include formalized training concerning TRCO limitations, expectations and responsibilities with contracting issues. This management plan will also implement procedures for formally appointing individuals to serve as TRCOs, thereby allowing the PCO to ensure that TRCOs appointments are acceptable. Estimated implementation time for the surveillance plan and formalized training is NLT 31 Jan 98.

l. Recommendation: Require the TRCO to review O&A costs (subcontractor effort) forms for reasonableness at the main operating bases prior to the subcontractor submitting forms for payment.

Action: Non-concur. Review of O&A costs for reasonableness prior to the contractor submitting the charges for payment is an administrative function and is predominately the responsibility of the ACO. The TRCOs responsibility is to verify performance of work relating to the charges for payment. They are not responsible for determining allowability of costs.

DRAFT

x

Department of the Navy Comments

Final Report
Reference



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH, DEVELOPMENT AND ACQUISITION
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000
OCT 9 1998

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR
GENERAL FOR AUDITING

SUBJECT: DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT
AUDIT REPORT: ALLEGATIONS TO THE DOD HOTLINE ON
CONTRACT MAINTENANCE FOR THE C-20 AIRCRAFT
(Project No.8CK-8005)

REFERENCE: (a) DODIG Draft Audit Report of August 14, 1998

ENCLOSURE: (1) Department of the Navy Response to Draft
Audit Report

We have reviewed the findings and recommendations
forwarded by reference (a). Detailed comments are provided
in enclosure (1).

We do not concur with Recommendation 2. Previous
attempts to relocate VR-51 to Hickam AFB, prior to BRAC 93,
were unsuccessful due to inadequate facilities. The
estimated cost of new facilities is \$ * . Also, the
movement of Navy P-3 squadrons to Kaneohe Bay in FY99 will
expand field operating hours to 24 hours per day, reducing
the C-20G requirement to pre-stage at or return to Hickam
AFB.

WILLIAM J. SCHAEFER
Deputy Assistant Secretary
of the Navy
Planning, Programming, and
Resources

Copy to:
CNO (N095)
CNO (N88R)
RDA (AIR)
FMO (31)

Deleted

*Proprietary data omitted.

Department of the Navy Comments

Department of the Navy Response
To
DODIG Draft Report of 14 August 1998
On
Allegations to the DOD Hotline on
Contract Maintenance for the C-20 Aircraft
Project No. 8CK-8005

Recommendation 2: We recommend that the Commander, Naval Air Reserve Forces move the C-20 operations from Marine Corps Base Hawaii – Kaneohe Bay to Hickam Air Force Base.

DON Position: Do not concur. The 1993 BRAC report directed Navy, in response to NAS Barbers Point closure, to "relocate its aircraft along with their dedicated personnel, equipment, and support to MCAS Kaneohe Bay, Hawaii". Prior to BRAC report direction, Hickam AFB was contacted by Commander, Naval Air Reserve Force (CNARF) to conduct a site survey to determine the feasibility of relocating VR-51 (C-20G squadron) to Hickam. The Base Commanding Officer denied the request stating there was no space available at Hickam. The Army C-20 detachment operates from refurbished and converted quonset huts at Hickam. Besides not being available, these spaces were deemed inadequate in 1992. Since this draft report has been issued the following steps have been taken and information accumulated:

1. The Hickam Civil Engineering office was contacted. VR-51 requires 28,000 square feet of operating space. Hickam has no facilities available and is demolishing existing substandard facilities. The estimated cost of new construction is 5.4 million dollars.
2. MCAS Kaneohe Bay field operating hours is scheduled to expand in April 1999 to 24 hours when three Navy P-3 squadrons move from NAS Barbers Point. Extended operating hours will significantly reduce the C-20G requirement to pre-stage at or return to Hickam.
3. Although 70 percent of Navy's C-20G flights originate from Hickam, the expense and inconvenience incurred by squadron personnel who have in good faith located in and around MCAS Kaneohe Bay makes this a major quality of life decision. Housing, schools and traffic congestion make this a bad recommendation for Navy personnel.

It is important Navy make the correct business decision for their personnel affected, for the taxpayers, and for operational efficiency. Based on other contract problems identified in this report, the support contract should be changed to include support from Hickam for Navy C-20 aircraft without a double charge for services. The squadron relocation is not an option for Navy and should not be considered until USAF and the Hickam A.F.B commanding officer agrees to facilitate VR-51 in adequate spaces

ENCLOSURE(1)

Defense Logistics Agency Comments



IN REPLY
REFER TO

DDAI

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060-6221

OCT 16 1998

**MEMORANDUM FOR THE ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE**

SUBJECT: DoD IG Draft Audit, Allegations to the DoD Hotline on Contract Maintenance for the C-20 Aircraft (Project No 8CK-8005)

The enclosed comments to recommendations 1.d. and 1.k are in response to your 14 August 1998 draft report. If you have any questions, please call Dave Stumpf, (703) 767-6266

Encl

SHEILA P. RAINES
Team Leader, Liaison & Policy
Internal Review Office

CC:
DCMC-BE
DCMC-PA

Federal Recycling Program



Printed on Recycled Paper

SUBJECT: Audit Report on Allegations to the DoD Hotline on Contract Maintenance for the C-20 Aircraft (Project No. 8CK-8005)

1. Subject audit included two (2) recommendations involving the Defense Contract Management Command (DCMC) that are as follows:

Request that the Defense Contract Management Command perform a follow-up review of the contractor's purchasing system and,

Provide training to Technical Representatives to the Contracting Officer and other DoD representatives on the contract and maintenance specific to the C-20 aircraft in a timely manner after assignment to the C-20 program. (See page 13 para. Training). DCMC's responses are provided below.

DoDIG RECOMMENDATION 1.d: We recommend that the Commander, Oklahoma Air Logistics Center request that the Defense Contract Management Command perform a follow-up review of the contractor's purchasing system.

DCMC COMMENTS: Concur

Background: A Contractor Purchasing System Review (CPSR) was performed at the Sabreliner Corporation during the period of June 2-17, 1997, covering the period of July 01, 1996 through March 31, 1997. The special review was requested by the ACO because of the increased purchasing activity for parts for the T-2 and C-20 aircraft programs. As a result of the review, the ACO approved the purchasing system on October 10, 1997. When the DoDIG visited DCMC-St. Louis in the period March 16-27, 1998, the Team Chief, acting as the ACO, promptly corrected a suspense oversight of December 31, 1997 for completion of the corrective action plan. This oversight was caused by an ACO vacancy, which has been subsequently filled, effective August 10, 1998

As the result of the DoDIG's findings and their questions relative to lowest price, another C-20 special review was performed during the period July 20-31, 1998, covering the period July 01, 1997 through June 23, 1998. The DoDIG auditors were present for the first week of the in-plant visit (July 20-24, 1998). As a result of the second review, the ACO issued a letter dated August 24, 1998 extending the Government's approval of the contractor's purchasing system. The Contractor Purchasing System Review report, dated August 21, 1998, was distributed to the Buying Activities and the DoDIG. In summary, Sabreliner utilized 9 evaluation factors to select * as the principal source for parts and services. After two reviews, by 2 different Procurement Analysts, DCMC-St. Louis believes that Sabreliner's decision complies with best value guidance and the CPSR report validates the decision process. It is evident from the DoDIG's findings that Sabreliner has not purchased the lowest priced parts and services from * , but * is within a competitive range and Sabreliner has negotiated a better discount than offered to the general public

*Proprietary data omitted.

DISPOSITION:

(X) Action is considered complete

DoDIG RECOMMENDATION 1.k: We recommend that the Commander, Oklahoma Air Logistics Center provide training to Technical Representatives to the Contracting Officer and other DoD representatives on the contract and maintenance specific to the C-20 aircraft in a timely manner after assignment to the C-20 program.

DCMC COMMENTS: Concur

DCMC-St. Louis, with the assistance of the Navy Program Office, has made arrangements to obtain specific Gulfstream III and IV training at Gulfstream Aircraft Corporation during the 1st (December 01-09, 1998) and 2nd (January 13-22, 1999) quarters of FY99. DCMC- St Louis considers this maintenance specific training a strong enhancement to effective performance.

DISPOSITION

(X) Action is Ongoing. ECD: December 9, 1998 and January 22, 1999

2. In several places in the report, the DoDIG states or suggests "DoD personnel did not place sufficient emphasis on monitoring the contractor's costs" and "those amounts in excess of those which were reasonable should be disallowed and recovered by the contracting officer." The report also states that DoD personnel did not understand the review process for Over and Above Costs (at the subcontractor level) and did not review O&A costs for reasonableness prior to the contractor submitting the charges for payment TRCOs (Technical Representatives to Contractor Officers) at the sites believed that the review occurred at DCMC. DCMC personnel believed that the TRCOs performed the review at the main operating bases. These assertions, suggestions and statements are inaccurate. The cited instances involve Cost Reimbursable Contract Line Item Numbers (CLINs), established in the contract for subcontract efforts and governed by the cost principles of allowability, allocability and reasonableness (See FAR 31.201-1 through 201-4). More specifically, allowability includes (1) reasonableness, (2) allocability, (3) Cost Accounting Standards, (4) terms of the contracts, and (5) any limitations set forth in the FAR subpart 201. As pointed out by the DoDIG, "a cost is reasonable if, in the nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business." The contract identified these costs as cost reimbursable, and subject to review by the Defense Contract Audit Agency (IAW 53 216-87(g) Audit) The contractor, through his evaluation process, selected the best value contractors to meet contract performance. In this contract, the contractor has documented his selection of subcontractors and has negotiated a * better discount than offered to the general public. DCAA will review those billings. The ACO/PCO find no fault with the contractor's subcontract methodology. In summary, the contract established cost reimbursable CLINs, the contractor was granted broad discretion in establishing the evaluation factors, and they applied those factors in the selection of . *

*Proprietary data omitted.

* as the best value. Incurred cost audits will review charges under those CLINs and any over charges or unallowable costs will be recouped.

3 The DoDIG report identifies the costs of aircraft tires and projects considerable savings (see Appendices C and D). The DoDIG points out that direct purchasing of the tires from Goodyear could have * the costs of *, and saved the Government \$887,000 in the period from October 1995 through April 7, 1998. This point was discussed in detail at the CPSR exit conference on July 31, 1998. Sabreliner did make one purchase directly from Goodyear, but had to return to * for subsequent purchases due to the non-availability of stock.

In summary, we concur in the 2 recommendations addressed to DCMC, but we do not concur in the lack of sufficient cost monitoring and the recommended excess cost recovery for the reasons stated in paragraphs 2 and 3. Points of contact at DCMC St Louis are:

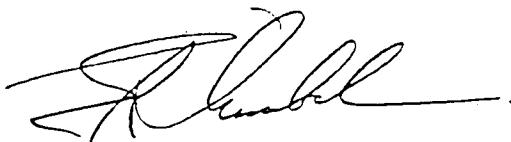
Edward Beck	Team Chief	(314) 331-5482 or DSN 555-5482
Brad Fitzhugh	ACO	(314) 331-5041 or DSN 555-5041
David Graham	Procurement Analyst	(314) 331-5086 or DSN 555-5086

ACTION OFFICER: Lt Col James W. Malloy, Jr., DCMC-PA, 767-2413

PSE APPROVAL: Thomas E. Brunk, Deputy Commander, 8 Oct 98

COORDINATION: D Stumpf, DDAI

APPROVAL:



F.R. CHAMBERLAIN
Rear Admiral, SC, USN
Deputy Director

OCT 16 1998

Audit Team Members

The Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD, produced this report.

Paul J. Granetto
Joseph P. Doyle
Deborah L. Culp
Michael J. Tully
John G. LaBelle
Michael J. Guagliano
Kelli M Burkewitz